# HOUSING MARKET OUTLOOK

## Calgary CMA

Canada Mortgage and Housing Corporation

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## New Home Market

### Housing Starts to be lower in 2007

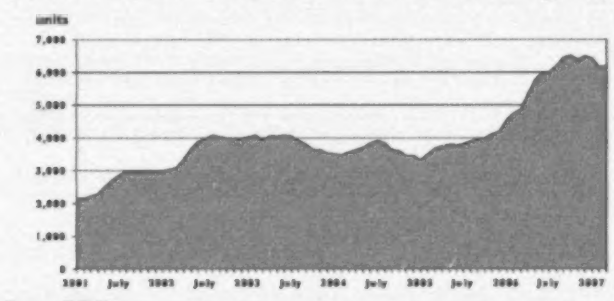
It was an extraordinary year for new home construction in 2006. Total housing starts in the Calgary Census Metropolitan Area (CMA) reached an all-time high of 17,046 units in 2006, breaking a record that stood for more than a quarter of a century. In 2005, poor weather conditions, labour and material shortages impacted construction processes and timelines, from building permit issue to housing start and completion. These shocks delayed and extended construction causing some starts to be carried into the next year. This, combined with the high level of demand for both single-detached and multi-family units, propelled construction levels to the record level achieved in 2006.

Construction activity will remain high in 2007 as much of the record level of housing starts in 2006 will be under construction in 2007. However, housing starts in 2007 are

Figure 1

**Calgary CMA – Single-Detached Under Construction**

***6,197 units under construction in March, 27% higher yr/yr***




Source: CMHC

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The substantial inflow of people to Calgary seeking job opportunities will keep the vacancy rate below one per cent in 2007 and 2008. The average apartment rent for a two-bedroom unit will rise to $1,075 in 2007 and 1,140 in 2008.

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Calgary's population continues to grow at a rapid pace, thanks largely to high levels of net migration.

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not expected to exceed the extraordinary level achieved in 2006. Nonetheless, they are expected to remain elevated and by year-end are projected to reach the second highest level on record. With much more selection in the resale market this year, some prospective buyers will be drawn away from new housing as they find their needs in the resale market. The rapid rising price of a new home will also impact demand. The increased cost for land will be reflected in higher new home prices, as will higher costs for labour and materials.

Total housing starts in the Calgary CMA declined by 28 per cent in the first quarter of 2007, from 3,844 units in the first three months of 2006 to 2,774 units this year. Housing starts are expected to remain softer in the first half of 2007 before picking-up in the second half of the year. By year-end 2007, total housing starts are projected to reach 15,500 units. In 2008, total housing starts are expected to ease to 14,800 units, down about 4.5 per cent.

## Single-detached units pull-back

After reaching a record high of 10,482 units in 2006, single-detached starts are expected to decline in 2007 to 9,250 units and dip further in 2008 to 8,800 units. The supply of single-detached units remained elevated due to a high level of homes under construction. At the end of March, more than 6,000 homes were under construction in the Calgary CMA, among the highest totals on record. This will, to some extent, inhibit the number of new foundations poured in the first half of 2007 as builders work feverishly to reduce construction durations. A larger selection in the resale market and rapid price growth will further impact housing starts in 2008.

At the end of the first quarter of 2007, single-detached starts stood at 1,717 units, about 31 per cent behind the extraordinary production of last year. While the decline appears significant, one must remember that 2006 was truly an exceptional year for single-detached starts across the Calgary CMA, thus making it difficult to compete with. Single starts through the first three months of 2007 are around the level of the first three months of 2005. With record sales being achieved in the resale market, CMHC expects the strong demand for housing will spill into new home sales and housing starts to follow suit later in the year, thereby narrowing the gap in production between this year and last. By year-end, single-detached starts are projected to be below the record high of 2006 by about 12 per cent. In 2008, single starts are expected to ease by five per cent to 8,800 units and be at the third highest level on record.

For the Calgary CMA, the average price of an absorbed single-detached home was $423,711 in March, up 29 per cent from a year earlier. While the absorbed average price reflects the price of homes that were completed and absorbed in March 2007, readers should be aware that the units recently absorbed were likely negotiated and priced before construction began. The absorbed average price is expected to rise by 38 per cent to $487,500 this year, reflecting higher cost for land, labour and materials. This can be supported by the growth in Calgary's New House Price Index (NHPI), which recently posted a 61 per cent year-over-year gain.

The inventory of single-detached homes, completed and unabsorbed has declined steadily for the last two years. At the end of March, the number of completed and unabsorbed units stood at 421 units, the lowest level since 1993. The inventory in March was composed of 369 show homes and 52 spec homes. With the number of spec units at such low levels, builders have attempted to replenish their inventory, providing an additional boost to the number of units currently under construction.

## Multi-family starts expected to remain high

Multi-family starts reached 6,564 units in 2006, the highest production in a quarter of a century and a jump of about 33 per cent from 2005. Production in the first three months of 2007 has pulled back from last year. Multi-family starts, which include semi-detached units, rows, and apartments, totalled 1,057 units in the first quarter of 2007, a decline of about 22 per cent from the production level of a year ago. The lower activity can be attributed to a decrease in apartment starts that has outweighed the increase in row construction. Thus far, semi-detached starts have been identical to last year. Apartment starts are counted by project, once the foundation of an

apartment building is poured all the units in the plan are counted together and included in the housing starts count of that month. Thus, the count of multi-family housing starts tends to be volatility over short periods of time.

On average, condominium units are more affordable than single-family homes. Combined with lifestyle and location factors, the demand for condominium units is strong in both the new and resale markets. Resale condominiums are selling at a record pace, and there were no completed and unoccupied condominium apartments in the new home market for the second consecutive month. CMHC expects multi-family starts will increase in the coming months to reflect these market conditions. Even with the lower level of starts this year, there are currently 8,185 multi-family units under construction across the CMA. By year-end, multi-family starts are expected to be close to the levels reached last year. Look for a total of 6,250 units in 2007, representing the second best performance in 25 years. Multi-family starts are expected to ease slightly to 6,000 units in 2008.

Through the first quarter of this year, there have been 710 multi-family units completed, 11 fewer than the number of units absorbed. As a result, the inventory of completed and unoccupied multi-family units has continued to fall. At the end of March, there were 85 complete and unabsorbed units, down about 38 per cent from last year at this time and down from more than 650 two years ago. The low level of inventory consists of 79 semi-detached units and six row units.

# Resale Market

## Resale Home Prices Rising Rapidly

After a brief pause toward the end of 2006, average house prices are again rising rapidly. The MLS® total average price in March was $415,321, almost 28 per cent higher than a year ago. In March, the monthly average price of a single-detached home increased by nearly $100,000 to $462,281, representing a gain of more than 27 per cent since March 2006.

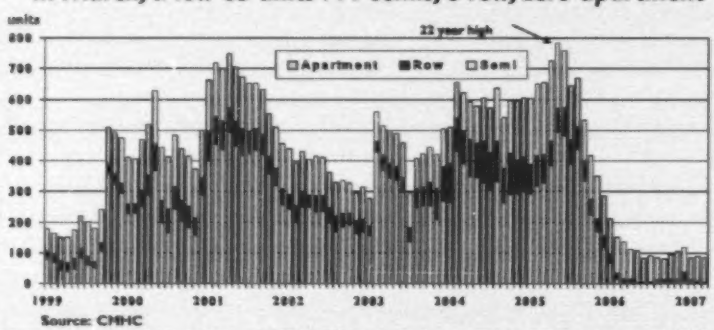
Condominium prices have also risen rapidly. At an average price of $308,187 in March, condo prices have increased by almost $73,000 since March 2006, representing a growth rate of almost 31 per cent.

The rate of price growth experienced in the first quarter of 2007 is expected to ease through the year as more supply comes on the market and the escalation in home prices impact demand. By year-end, the average price of a single-detached home in the Calgary CMA is projected to reach $474,000, about 24 per cent higher than the annual average of 2006. And on the heels of a 42 per cent gain last year, average condominium prices are expected rise by another 26 per cent in 2007 to about $329,500. The huge demand for housing has caused a rapid appreciation of real estate in the Calgary CMA that has translated to average home prices more than doubling in the last four years. Wage growth has been quite high in Calgary but has not grown as fast as housing prices. In 2008, a moderation in demand and a higher level of supply will reduce the rate of growth of average prices to about 10 per cent.

Figure 2

**Calgary CMA – Multi-Family Inventory**

***In March, a low 85 units : 79 semis, 6 row, zero apartment***




Source: CMHC

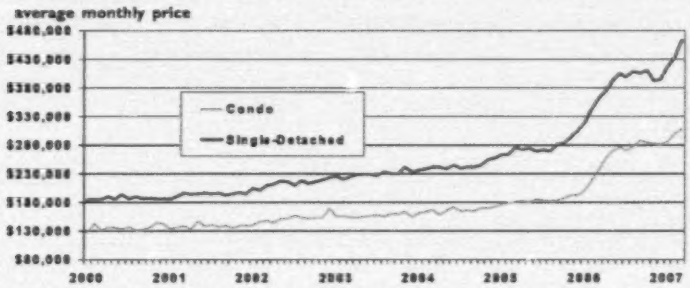
## Sales at a Record Pace in 2007

The demand for housing in 2006 was extraordinary, especially in the first quarter of last year when MLS® sales were almost 32 per cent higher than the prior record level of 2005. As house prices increased rapidly in the Calgary CMA, the growth rate of sales declined through the year to only five

Figure 3

**Calgary CMA MLS® Average Prices**

***Rising yr/yr March: Calgary Single up 31%, Condo up 27%***




Source: CREA

per cent by year-end, reaching a new annual sales record of 33,024 units. The resale market moved from being very heated in the first part of 2006 to a more balanced condition in the second half of the year. Escalating prices weakened demand in the second half of 2006, as indicated by a succession of monthly sales declines from July through to November. The market strengthened in the last month of 2006 as demand picked-up, ending a downward draft in monthly average prices.

Resale homes are selling at a record pace through the first quarter of 2007 in the Calgary CMA. The sales momentum at the end of 2006 has been carried into 2007. Total MLS® volumes have reached 9,918 sales, almost 11 per cent higher than the heights achieved last year. Demand is especially strong in the condominium market as sales volumes are about 19 per cent higher than last year. Sales of single-detached homes are not growing as fast as condominiums but nevertheless are at a pace to exceed the record level set last year. After three months of this year, single-detached homes have reached 6,906 units, up over seven per cent from the same period in 2006.

The record level of net migration to Calgary continues to support the demand for resale housing. Sales volumes in 2007 are projected to reach an annual record high of 34,750 units. This would represent the fourth consecutive annual record for MLS® sales. In 2008, net migration is not expected to exceed the levels of 2007. This, combined with the continued escalation in prices, should result in demand easing in 2008. Total MLS® sales will still remain at a very high level next year as sales are projected to be over 33,000 units.

## Higher Supply

Supply in the resale market in 2007 is expected to remain above levels experienced in 2006. Year-to-date, new listings are more than 27 per cent higher than the same period last year. The higher level of supply this year has allowed homebuyers to take more time to make their purchase. In March 2007, the average days on the market for a resale single-detached home (26 days) and condo (25 days) were respectively 44 per cent and 47 per cent longer than a year earlier. The increased supply this year has reduced the bidding wars and sales in excess of list price that were prevalent in last year's market.

In spite of a significant increase in new listings, demand pressure during the first quarter of 2007 boosted the sales-to-active listing ratio from 56 per cent at the start of the year to over 97 per cent in March. Active listings have been about double the amount compared to the first three months of last year. More supply in the market should moderate the current price pressure. The very high level of new single-detached and condominium units under construction will put more supply into the market place during 2007 and 2008 as these units are completed and people move into their new home and list their existing one.

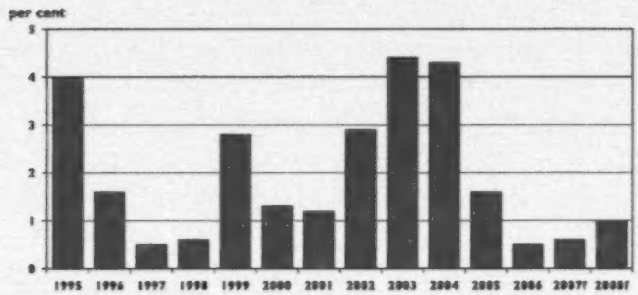
# Rental Market

## Vacancy Rate Expected to remain Low

The average vacancy rate in the Calgary CMA fell from 1.6 per cent in October 2005 to 0.5 per cent in October 2006. The 0.5 per cent vacancy rate matches the lowest vacancy rate on record that occurred in October 1997. The substantial inflow of people to Calgary seeking job opportunities is expected to keep the vacancy rate in 2007 close to the level found in the October 2006 survey. An

Figure 4

**Calgary CMA – Apartment Vacancy Rate**
***Rental market tight in 2007 and 2008***




Source: CMHC

easing in net migration will cause the vacancy rate to drift up in 2008 but the vacancy rate is expected to remain low around one per cent.

With a very tight rental market in the Calgary CMA, the average apartment rent for a two-bedroom unit increased from $808 in October 2005 to $960 in October 2006. Further increases created by demand and rising real estate prices will push the average two-bedroom rent to a projected $1,075 in 2007 and to $1,140 in 2008.

The conversion of rental apartments to condominium is expected to continue as some property owners find market conditions are producing economic incentives to do so. The supply of apartment rental is decreasing as there has been a long term trend towards condo conversion and very little new rental construction. At the end of March 2007, rental construction in the Calgary CMA consisted of an 88 unit rental project for seniors, a 60 unit rental project for social housing under the Affordable Housing Initiative, and a 4 unit market rental project.

The increase in rental supply is not coming from rental apartment construction but rather indirectly from condominium apartments. In CMHC's October 2006 survey, it was found that of the 26,539 condo units sampled, 4,686 were rented. Approximately 18 per cent of condo apartments are bought by investors and subsequently rented. The vacancy rate in this market was also low at 0.7 per cent. The average rent for a two-bedroom condo apartment was 31 per cent higher than the traditional rental apartment, likely because of the enhanced amenities. There is a high level of condominium apartment construction in the Calgary CMA and it can be expected that a significant proportion of these units will end up being rented.

# Economic Overview

## Population growth Continues to Expand Economy

In 2006, Calgary experienced a combination of very favourable economic conditions that were conducive to a rapidly expanding housing market. These positive economic conditions continue to exist in 2007 and to a large extent are expected to carry into 2008.

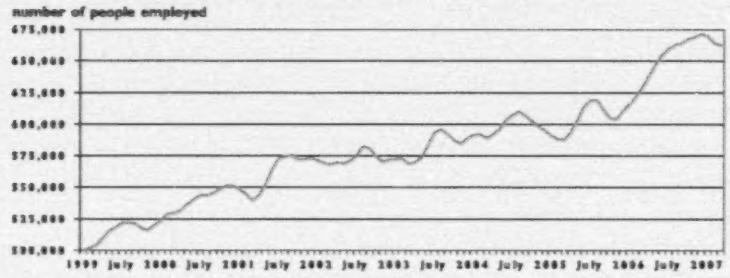
Over the past year, a high level of residential and non-residential investment activity created about 11,700 new construction jobs, up almost 25 per cent from March 2006. In total, employment has grown by 33,000 jobs in the Calgary CMA, up 5.2 per cent from a year earlier. The unemployment rate in Calgary for March 2007 was 3.5 per cent and labour shortages are still common as employers are experiencing difficulty finding workers. The tight labour market has boosted wages and increased consumer spending. Wage growth has moderated in 2007 but overall incomes continue to rise. In March, the average weekly earnings of $887, for all industries in the Calgary CMA, represented a 6.1 per cent gain from March 2006. With a tight labour market and rising wages, consumer spending is putting pressure on prices. In February, the overall inflation rate in the Calgary CMA was 6.1 per cent, more than triple the national average.

Investment has also boosted the economy. In the first quarter of 2007, seasonally adjusted investment in non-

Figure 5

## Calgary CMA – Actual Employment

***March 2007 at 662,800, up 5.2 % from a year ago***




Source: Statistics Canada

residential construction reached $985 million in the Calgary CMA, more than 85 per cent higher than the first quarter of 2006. A walk in the central business district and surrounding area will reveal some of this investment and the enhanced level of non-residential construction. To some extent, the non-residential construction industry is competing with residential construction industry for workers. In March 2007, the unemployment rate in the construction industry was 3.1 per cent.

The population of the Calgary CMA grew by 127,816 people from 2001 to 2006, a 13.4 per cent growth rate that was almost 2.5 times more than the national average of 5.4 per cent and 1.26 times higher than the provincial population growth rate. Indeed, Calgary had the fastest growing population for a metropolitan area outside of Barrie, Ontario. A primary reason for Calgary's growth in population is net migration. Between the census years, net migration amounted to 91,605 people, accounting for approximately 71.7 per cent of the population growth in the Calgary CMA. In 2006 alone, 31,223 more people arrived in the Calgary CMA then departed, with 25,794 of those residing within city limits. The economic opportunities and relatively strong labour market have drawn people to Calgary and the population is expanding rapidly and increasing the demand for housing.

Calgary's economy continues to expand but its relative advantage as compared to the rest of the country narrowed in terms of employment. Calgary's unemployment rate remains much lower than the national average, though the difference has narrowed in recent months. A multitude of employment opportunities still exist in Calgary, but as other parts of the country's employment opportunities are improving, Calgary's magnetic draw for migrants will weaken. Accordingly, net migration for the 12 months ending April 2007 will peak at 32,500 this year before slipping in 2008. These high levels of migration will continue to support the demand for housing.

## Mortgage Rates remain low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

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## Forecast Summary
## Calgary CMA
## Spring 2007

| | 2004 | 2005 | 2006 | 2007f | % chg | 2008f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 26,511 | 31,569 | 33,027 | 34,750 | 5.2 | 33,250 | -4.3 |
| MLS® New Listings | 41,167 | 39,821 | 44,725 | 55,000 | 23.0 | 57,750 | 5.0 |
| MLS® Average Price ($) | 222,860 | 250,832 | 346,675 | 430,000 | 24.0 | 473,000 | 10.0 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 8,233 | 8,719 | 10,482 | 9,250 | -11.8 | 8,800 | -4.9 |
| Multiples | 5,775 | 4,948 | 6,564 | 6,250 | -4.8 | 6,000 | -4.0 |
| Starts - Total | 14,008 | 13,667 | 17,046 | 15,500 | -9.1 | 14,800 | -4.5 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 285,321 | 315,796 | 353,662 | 487,500 | 37.8 | 550,000 | 12.8 |
| New Housing Price Index (% chg.) | 5.5 | 7.0 | 43.6 | 18.3 | - | 9.0 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 4.3 | 1.6 | 0.5 | 0.6 | - | 1.0 | - |
| Two-bedroom Average Rent (October) ($) | 806 | 808 | 960 | 1,075 | 12.0 | 1,140 | 6.0 |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 4.80 | 5.80 | 6.30 | 6.40 | - | 6.29 | - |
| Mortgage Rate (5 year) (%) | 6.05 | 6.30 | 6.45 | 6.63 | - | 6.80 | - |
| Annual Employment Level | 598,700 | 605,900 | 655,100 | 683,900 | 4.4 | 697,600 | 2.0 |
| Employment Growth (%) | 2.6 | 1.2 | 8.1 | 4.4 | - | 2.0 | - |
| Unemployment rate (%) | 5.0 | 3.9 | 3.2 | 3.7 | - | 3.9 | - |
| Net Migration | 11,451 | 20,767 | 31,223 | 32,500 | 4.1 | 23,200 | -28.6 |

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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